

# **The State Aid to General Education Formula & General Education Levy Adjustment**

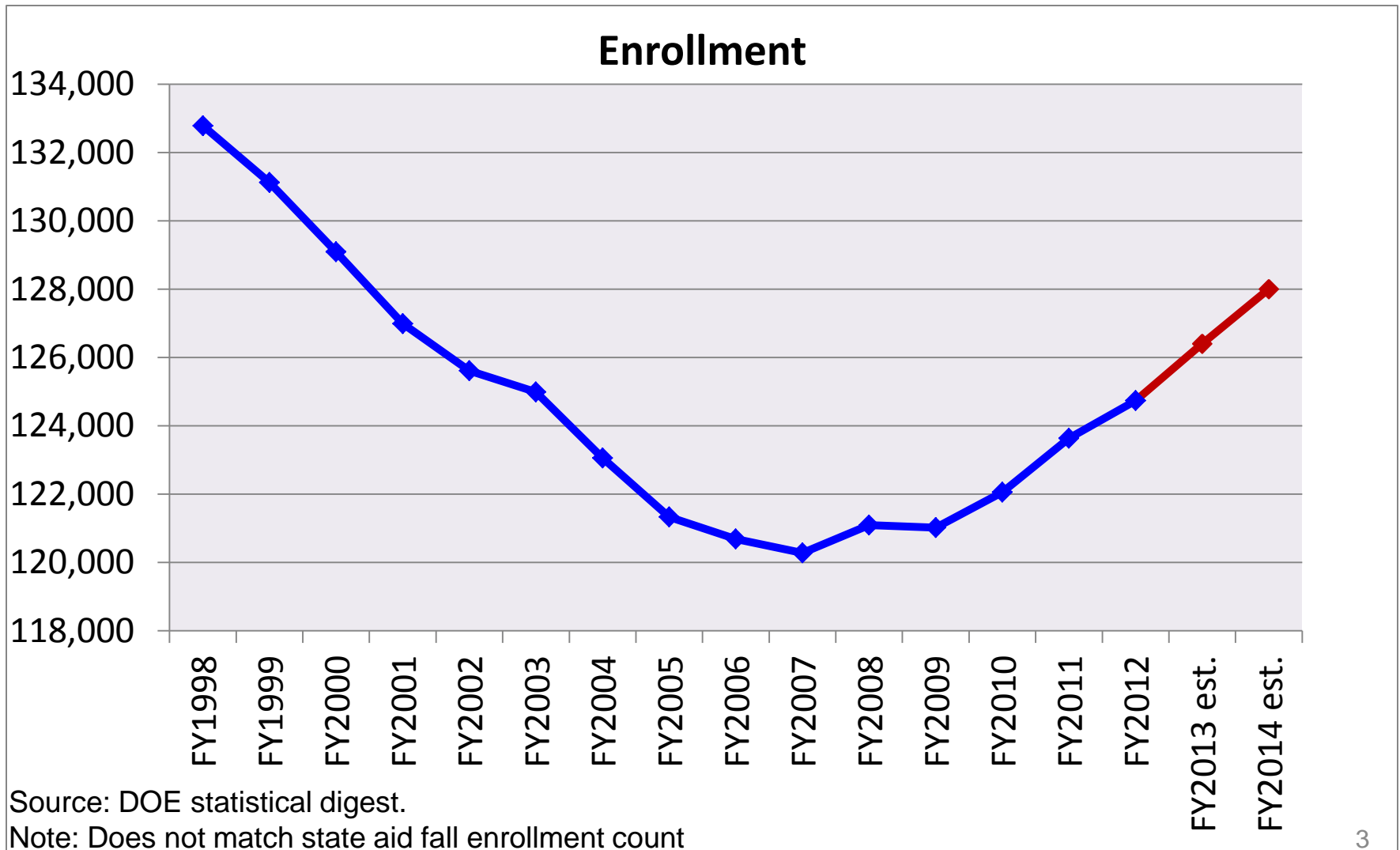
Presentation to the  
Education Funding Formula Study Committee  
June 19, 2013

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# State Aid to General Education

- There are 151 public school districts in South Dakota for FY2013.
- Current formula for funding general K-12 education took effect Jan. 1, 1997, with several major changes made by the 2007 Legislature and the 2010 Legislature.
- The base formula starts with the same amount of funding per student (per student allocation or PSA).
- The general funding for K-12 schools is paid by a combination of money raised by local property taxes and money raised by the state through statewide taxes.
- Per statute, the targeted proportion of local funding and state funding must remain constant when making the levy adjustment.
- The current target is 53.8% state funding with the remaining coming from local property taxes.

# Historical K-12 Enrollments



# 3 Steps to the Formula

1. Determine Local Need (Total Resources Needed)
  - Per Student Allocation (PSA) X State Aid Fall Enrollment
  - Small School Adjustment
  - LEP Adjustment (New addition for FY2014 per SB235)
2. Determine Local Effort (Valuations x Levies)
  - Property Valuations
  - Setting the Levies
    - Cutler/Gabriel
3. Determine State Share
  - Local Need less Local Effort

# Local Need

13-13-10.1. Definition of terms. Terms used in this chapter mean...

- (5) "Local need," is the sum of:
- (a) The per student allocation multiplied by the fall enrollment; and
  - (b) The small school adjustment, if applicable, multiplied by the fall enrollment; and
  - (c) The limited English proficiency (LEP) adjustment, calculated pursuant to subdivision (2D) if applicable;  
(Beginning in FY2014)

# Local Need – The PSA

13-13-10.1. Definition of terms. Terms used in this chapter mean...

(4) "Per student allocation," **for school fiscal year 2012 is \$4,389.95**. Each school fiscal year thereafter, the per student allocation is the previous fiscal year's per student allocation increased by the **index factor**;

# Local Need - The PSA (cont.)

- Index Factor
  - annual inflationary increase to the Per Student Allocation

13-13-10.1. Definition of terms. Terms used in this chapter mean...

(3) "Index factor," is the annual percentage change in the consumer price index for urban wage earners and clerical workers as computed by the Bureau of Labor Statistics of the United States Department of Labor for the year before the year immediately preceding the year of adjustment or three percent, whichever is less;

# Calculating the Index Factor

- Per statute, the increase for the year before the year preceding the year of adjustment is typically used.
- In FY2013, a 2.3% ongoing increase to the PSA was appropriated.
- In FY2014, the Legislature appropriated a 3.0% increase which is the maximum increase under current law, which calls for the increase in CPI-W or 3%, whichever is less.

CPI-W				
2010:2	2.130	2.1242	1.2%	FY2010
2010:3	2.139			
2010:4	2.157			
2011:1	2.185			
2011:2	2.212	2.1731	2.3%	FY2011
2011:3	2.230			
2011:4	2.237			
2012:1	2.251			
2012:2	2.253	2.2428	3.2%	FY2012



# PSA Increase vs. Index Factor

The index factor referenced in statute is the typical increase to the Per Student Allocation (PSA) each year. The actual amount funded can be changed before the final budget is passed each year.

## Historical Increases in the Per Student Allocation

	<u>FY2003</u>	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>	<u>FY2009</u>	<u>FY2010</u>	<u>FY2011</u>	<u>FY2012</u>	<u>FY2013</u>	<u>FY2014</u>
<b>PSA--</b>	\$3,889.19	\$3,967.88	\$4,086.56	\$4,237.72	\$4,364.85	\$4,528.80	\$4,664.66	\$4,804.60	\$4,804.60	\$4,389.95	\$4,490.92	\$4,625.65
<b>\$ Increase--</b>		\$78.69	\$118.68	\$151.16	\$127.13	\$163.95	\$135.86	\$139.94	\$0.00	-\$414.65	\$100.97	\$134.73
<b>% Increase Funded--</b>		2.0%	3.0%	3.7%	3.0%	3.8%	3.0%	3.0%	0.0%	-8.6%	2.3%	3.0%
<b>Index Factor--</b>		1.5%	2.2%	2.0%	3.0%	3.0%	2.5%	3.0%	1.2%	1.2%	2.3%	3.0%

The above information does not include one-time increases to school funding. One-time increases were funded in FY2004 (\$58.55/student), FY2005 (\$73.74/student), FY2007 (\$54.00/student), FY2012 (\$167.06/student), and FY2013 (\$75.87/student).

# Local Need

## (recent changes)

- SB157 of the 2007 legislative session created a newly defined “fall enrollment” to calculate state aid payments. (vs. Average Daily Membership previous to 2007)
- With the passage of HB1248 of the 2010 legislative session, state aid payments beginning in FY2011 were based on the current year’s fall enrollment as opposed to the previous year’s fall enrollment making budgeting more difficult.
- HB 1248 also repealed the Increasing enrollment supplement, but held the declining enrollment supplement harmless. By holding the declining enrollment supplement harmless, enrollment calculations for state aid payments now cover three years of enrollment data.
- SB 235 from the 2013 Legislative session added an adjustment for Limited English Proficient (LEP) students, which provides an additional 25% of a per student allocation for qualifying students.

# Local Need – Fall Enrollment (cont.)

To calculate the total fall enrollment to be used in calculating state aid for the school year the following would be done for each school district:

**# of students enrolled on the last Friday in Sept. of current year**

**Less the # of students for whom the district receives tuition**

**Plus the # of students for whom the district pays tuition**

**= Fall Enrollment for current school year**

**Compare the average of the fall enrollment for the prior two years**

**The larger of the two is be used for calculating state aid for the current fiscal year (referred to as state aid fall enrollment)**

# Local Need – Fall Enrollment

(based on the FY2014 Adopted budget)

To come up with the local need based on fall enrollment:

State Aid Fall Enrollment x PSA = Need for Fall Enrollment

129,800 (est.) x \$4,625.65 (FY14 PSA) = **\$600,409,370**

# Local Need - Small School Adjustment (SSA)

13-13-10.1. Definition of terms. Terms used in this chapter mean...

- (2C)"Small school adjustment," calculated as follows:
- (a) For districts with a fall enrollment of two hundred or less, multiply 0.2 times \$4,237.72;
  - (b) For districts with a fall enrollment of greater than two hundred, but less than six hundred, multiply the fall enrollment times negative 0.0005; add 0.3 to that result; and multiply the sum obtained times \$4,237.72;

## Local Need – SSA (cont.)

Based on the statute, this is how the formula looks:

$$\text{Districts } \leq 200 = .2 \times 4,237.72 = \$847.54$$

$$\text{Districts } > 200 \text{ and } \leq 600 =$$

$$(.3 - .0005 \times \text{FE}) \times 4,237.72 = \text{SSA PSA}$$

$$(.3 - .0005 \times 201) \times 4,237.72 = \$845.43$$

$$(.3 - .0005 \times 300) \times 4,237.72 = \$635.66$$

$$(.3 - .0005 \times 400) \times 4,237.72 = \$423.77$$

$$(.3 - .0005 \times 500) \times 4,237.72 = \$211.89$$

$$(.3 - .0005 \times 599) \times 4,237.72 = \$ 2.12$$

$$(.3 - .0005 \times 600) \times 4,237.72 = \$ 0.00$$

**In FY2013, 110 of the 151 public school districts qualified for the small school adjustment**

# Local Need – Limited English Proficiency adjustment (LEP)

13-13-10.1. Definition of terms. Terms used in this chapter mean...

(2D)"Limited English proficiency (LEP) adjustment," is calculated as follows:

- (a) Multiply 0.25 times the per student allocation; and
- (b) Multiply the product obtained in subsection (a) times the number of kindergarten through twelfth grade students who, in the prior school year, scored below level four on the state-administered language proficiency assessment as required in the state's consolidated state application pursuant to 20 USC 6311(b)(7) as of January 1, 2013;

# Local Need – Putting it all Together

(based on the FY2014 Adopted budget)

Base Need Total = \$600,409,370

Small School Adjustment Total = \$ 17,583,588

LEP Adjustment Total = \$ 2,542,951

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**TOTAL LOCAL NEED = \$620,535,909**



# Local Effort

13-13-10.1. Definition of terms. Terms used in this chapter mean...

(6)"Local effort," the amount of ad valorem taxes generated in a school fiscal year by applying the levies established pursuant to § 10-12-42;

$$\text{Local Effort} = \text{Property Valuations}/1,000 \times \text{Levies}$$

# Property Classes & School District General Fund Levies

There are 3 classes of property that are recognized. Levies for pay 2014 were set by SB 28 from the 2013 session:

- **Agricultural (Ag)**
  - \$2.090/\$1,000 of taxable valuation for pay 2014 taxes
- **Owner Occupied (OO)**
  - \$4.296/\$1,000 of taxable valuation for pay 2014 taxes
- **All Other (Commercial, Utilities, etc.)**
  - \$9.200/\$1,000 of taxable valuation for pay 2014 taxes

# Calculating Local Effort

- Valuations represent an 85% median level of assessment as determined by the Department of Revenue
- Property taxes are based on a calendar year basis
- State aid is calculated on a fiscal year basis
- When calculating the property valuations,  $\frac{1}{2}$  of the current calendar year and  $\frac{1}{2}$  of the next calendar year is used to determine total property valuations in the formula
- i.e. FY2014 Local Effort is based on  $\frac{1}{2}$  of taxes payable in 2013 (July – December) and  $\frac{1}{2}$  of taxes payable in 2014 (January – June)

# Cutler/Gabriel

## (setting the levies)

- Per statute, general fund levies of a school district must be adjusted in order for local effort to increase at the same percentage rate as local need. This means that the proportion of local effort and state aid is targeted to remain constant when setting the levies.
- To comply with Cutler/Gabriel, we must look out two years when figuring proportional shares of local effort and state aid (FY2015 when budgeting for FY2014)
- This can cause the state/local proportion to be different in the budget year (FY2014), but the target is 53.8% state funding for the year succeeding the budget year (FY2015).

# Cutler/Gabriel

## (Levy Adjustment Changes)

- Prior to property taxes payable in 2011, the levy adjustment for each property class was done **proportionally**.
  - Example - The state wide estimate of property taxable value growth was 5%, then typically each levy would be reduced 2% to obtain a total increase in local effort of 3%.
  - If one property class had a higher valuation growth rate than another, it would pay a slightly larger portion of local effort.
- The passage of SB 149 from the 2009 session separated the levy adjustment for Agriculture property from Non-Ag property, ensuring Ag property's contribution towards local effort remains constant (currently targeted at 18.45% of local effort).
  - Now, the growth in valuation of each property class has to be estimated individually so the Agriculture mil levy is set to target the same share of local effort (approximately 18.45%).

# Cutler/Gabriel

## (Levy Adjustment Changes)

- Since Agriculture taxable valuations have grown at a robust rate while Owner Occupied and Commercial/Other property have realized anemic growth, it has resulted in a levy reduction for Agriculture property, while the OO and Commercial levies increased the past two years.

Property Tax Year	General Fund Levies			Change from Previous Year		
	Ag	OO	Commercial /Other	Ag	OO	Commercial /Other
<b>pay 2010</b>	\$ 2.573	\$ 4.042	\$ 8.656	\$(0.037)	\$ (0.058)	\$ (0.124)
<b>pay 2011</b>	\$ 2.554	\$ 3.965	\$ 8.491	\$(0.019)	\$ (0.077)	\$ (0.165)
<b>pay 2012</b>	\$ 2.388	\$ 3.965	\$ 8.491	\$(0.166)	\$ -	\$ -
<b>pay 2013</b>	\$ 2.322	\$ 4.029	\$ 8.628	\$(0.066)	\$ 0.064	\$ 0.137
<b>pay 2014</b>	\$ 2.090	\$ 4.296	\$ 9.200	\$(0.232)	\$ 0.267	\$ 0.572

- This change in policy has created a tax shift among the classes of property since SB 149 was implemented.

# Cutler/Gabriel

## (Levy Adjustment – Tax Shift)

Levies	Pay 2014 (proportional adjustment: pre SB149 policy)		Pay 2014 (Levies as Adopted under current law)		Change
Ag	\$	2.588	\$	2.090	\$ (0.498)
OO	\$	4.065	\$	4.296	\$ 0.231
Commercial/Other	\$	8.706	\$	9.200	\$ 0.494

### Local Effort (est. by CY)

Ag	65,499,775	52,895,877	(12,603,898)
OO	97,000,493	102,512,698	5,512,205
Commercial/Other	135,358,372	143,038,942	7,680,569
	297,858,640	298,447,517	588,876

### Targeted Share of L/E (est. FY15)

Ag	22.84%	18.45%	-4.39%
OO	32.21%	34.05%	1.84%
Commercial/Other	44.95%	47.50%	2.55%
	100.00%	100.00%	0.00%

# Local Effort – Calculations

## SCHOOL DISTRICT GENERAL FUND LEVIES

	AG	Owner Occ	Other/Utilities
2010 pay 2011	\$2.554	\$3.965	\$8.491
2011 pay 2012	\$2.388	\$3.965	\$8.491
2012 pay 2013	\$2.322	\$4.029	\$8.628
2013 pay 2014 est	\$2.090	\$4.296	\$9.200

## STATE AID PROPERTY VALUATIONS TOTAL

	AG	Owner Occ	Other/Utilities	Total
2010 pay 2011	\$19,690,763,549	\$23,337,141,120	\$15,122,812,959	\$58,150,717,628
2011 pay 2012	\$21,199,956,763	\$23,897,051,510	\$15,422,245,257	\$60,519,253,530
2012 pay 2013	\$23,008,211,055	\$23,862,359,867	\$15,547,711,043	\$62,418,281,965
2013 pay 2014 est	\$25,309,032,161	\$23,862,359,867	\$15,547,711,043	\$64,719,103,071
Assumed growth for pay 2014	10%	0%	0%	

## AMOUNT RAISED (Valuation/\$1,000 x Levy)

	AG	Owner Occ	Other/Utilities	Total
2010 pay 2011	\$50,290,210	\$92,531,765	\$128,407,805	\$271,229,779
2011 pay 2012	\$50,625,497	\$94,751,809	\$130,950,284	\$276,327,590
2012 pay 2013	\$53,425,066	\$96,141,448	\$134,145,651	\$283,712,165
2013 pay 2014 est	\$52,895,877	\$102,512,698	\$143,038,942	\$298,447,517

## FY14 ESTIMATE OF LOCAL EFFORT

	AG	Owner Occ	Other/Utilities	Total
1/2 pay 13 Est.	\$26,712,533	\$48,070,724	\$67,072,825	
1/2 pay 14 Est.	\$26,447,939	\$51,256,349	\$71,519,471	
<b>TOTAL</b>	<b>\$53,160,472</b>	<b>\$99,327,073</b>	<b>\$138,592,296</b>	<b>\$291,079,841</b>



# State Share

(based on Legislative Adopted FY2014 budget)

State Share =      Local Need – Local Effort  
+ Valuation “lost” in formula

State Share =              \$620,535,909  
                                 - \$291,079,841  
                                 + \$    2,761,219

**FY2014 Budget = \$332,217,287 State Share**

# Opt Outs

- Each year the property tax levies for the general fund of a school district are set by the South Dakota Legislature. If a district needs additional funds to operate, they can opt out of the maximum property tax levies with a 2/3 vote of the local school board. In many instances, this is referred to a public vote and must be passed by a simple majority of the public.
- For property taxes payable in 2013, there were 66 school districts that opted out of the maximum levies for a total amount of \$26.1 million.

# Sparsity

- Funded outside the formula
- Recognizes unique challenges of rural, isolated districts
- Eligible to receive additional state dollars not to exceed \$110,000 per district
- 28 districts received sparsity dollars in the 2012-2013 school year.

# State Aid to Special Education

- Similar in concept to the general education formula:
  - Start with a level of funding per student which is increased each year by the same index factor.
  - Multiply the disability level by the number of students
  - Determine local effort by applying the levy, then the state funds the remainder.
- Differences:
  - Instead of one PSA, there are 6 different levels
  - Funding per disability level is rebased after every 3 years
  - 2 levies
    - one for the formula local effort (\$1.352 for pay 2014)
    - The maximum levy (\$1.552) is for districts that have higher cost programs
  - Extraordinary cost fund

# Disability Levels

Funding is broken out into 6 levels of disability:

13-37-35.1. Definition of terms. Terms used in chapter 13-37 mean:

- (1) "Level one disability," a mild disability;
- (2) "Level two disability," cognitive disability or emotional disorder;
- (3) "Level three disability," hearing impairment, deafness, visual impairment, deaf-blindness, orthopedic impairment, or traumatic brain injury;
- (4) "Level four disability," autism;
- (5) "Level five disability," multiple disabilities;
- (5A) "Level six disability," prolonged assistance;

# Funding per Disability Level (FY2014)

- Level 1 = \$4,660.75
- Level 2 = \$11,457.72
- Level 3 = \$15,231.64
- Level 4 = \$13,600.12
- Level 5 = \$20,592.79
- Level 6 = \$7,421.15

# Extraordinary Cost Fund

- Districts must apply for funds
  - 2 times/year – January and May
- May not include request for funding for capital acquisitions
- Must levy at the maximum levy for special education
- Request reviewed by the Extraordinary Cost Oversight Board
  - Makes recommendations to the Secretary

# For More Information

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## **Department of Education**

- <http://doe.sd.gov/>

## **Department of Revenue**

- <http://dor.sd.gov/>